

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: January 13, 2003
To: Supervisor Richard D. Nyklewicz, Jr., Chairman, Committee on Finance and Audit
From: Director of Audits
Subject: Status of Health Care Cost Reduction Plan [File No. 02-503(a)]

The 2003 Milwaukee County Adopted Budget for Employee Fringe Benefits (org. unit 1950) contains a provision "directing the Department of Audit to provide monthly reports for the first quarter of 2003 and quarterly reports thereafter, unless otherwise determined, regarding the projected surplus/deficit in the employee Health Benefits account."

Background

On October 8, 2002, as part of its budget hearings on the 2003 County Executive's Recommended Budget, the Finance and Audit Committee reviewed the proposed budget for Employee Fringe Benefits. At that time, the Department of Human Resources presented the major elements of a Health Care Cost Reduction Plan designed to save an estimated \$10 million from previously-projected costs for providing health care for Milwaukee County employees and retirees in 2003. The Committee voted, 7-0, to refer the matter to the Personnel Committee and the Subcommittee on Employee Insurance and Benefits, and directed the Department of Audit and County Board staff to review the plan.

The Director of Audits and Director of County Board Research issued a memo dated October 17, 2002, containing the results of their review. Concerns were expressed regarding the adequacy of the proposed \$79.5 million appropriation for 2003 health benefits given several uncertainties associated with health care costs in general and the proposed Health Care Cost Reduction Plan in particular. Subsequently, the County Executive's Recommended Budget for Fringe Benefits, which embraced the Health Care Cost Reduction Plan, was amended by the County Board to include the monthly/quarterly budget monitoring reports from the Department of Audit.

Enrollment Data

When the Health Care Cost Reduction Plan was initially presented to the Personnel and Finance & Audit Committees, considerable discussion centered on the issue of enrollment patterns of employees and retirees between the three options offered. The choices offered were:

1. The Human Preferred Provider Plan (PPO), the conventional plan formerly administered by WPS.
2. The Humana Advantage (Health Maintenance Organization, or HMO) plan.
3. A new Aurora Direct Exclusive Provider Option (EPO).

Approximately \$5.5 million of the projected \$10 million in savings from prior projections were anticipated from deeper discounts achieved through the Humana PPO and Aurora EPO plans. There was some confusion, however, over the importance of achieving Aurora's goal of attaining 50% of the conventional plan participants. Based on assumptions used by the independent actuary hired by the Department of Human Resources (DHR) to calculate the estimated savings, less than \$400,000 of the \$5.5 million in projected savings was predicated on a 50% level of participation in the Aurora EPO.

According to the County's Master Payroll File and information provided by DHR, the figures shown in **Table 1** represent current enrollments in three plans offered by the County, with the exception of a minor number of participants with special circumstances, such as employees on unpaid leave status.

Table 1
2003 Milwaukee County Health Care Plan Enrollments

	<u>2003 Enrollment</u>	<u>Percent of Grand Total</u>
Humana PPO (Conventional Plan)		
Employees	2,000	20.0%
Retirees	3,970	39.6%
Total	5,970	59.6%
Humana Advantage (HMO)		
Employees	2,883	28.8%
Retirees	749	7.5%
Total	3,632	36.3%
Aurora Direct (EPO)		
Employees	308	3.1%
Retirees	101	1.0%
Total	409	4.1%
Grand Total	10,011	100%

The enrollment figures shown in Table 1 reflect only minor net changes in the December 2002 totals for both the County Conventional Plan (now administered by Humana PPO) and the Humana HMO. Coupled with the relatively small enrollment in the Aurora Direct option, the figures indicate there was relatively minor movement between plan options by the County's employees and retirees. As of this date, no fiscal information is available to review the impact of the current enrollment patterns. However, it should be noted that in exchange for dropping an outright demand for the County to provide an incentive in the form of reduced health care premiums for Aurora EPO participants, Aurora was granted the ability to opt out of the three-year agreement after the first year.

Fiscal Information

One item resolved late in the negotiation process was an agreement on the part of the County to advance Humana \$400,000, or approximately two days' claims payments, as start-up cash for initial claims under the PPO portion of the contract. Initially, Humana had requested advance payment of approximately eight days' claims, or \$1.6 million. The cost to the County of this \$400,000 advance is approximately \$20,000 in forgone interest earnings.

At this time, there is no other fiscal information available to report. Given the lag time between service delivery, claims processing and claims payments, it is unlikely that any meaningful financial data will be available to determine budget surplus/deficit indicators in the health benefits account until after the end of the first quarter. Therefore, it is our recommendation that the Finance and Audit Committee:

- 1. Receive and place on file this memo, with the understanding that subsequent reports will be provided on the surplus/deficit status of the health benefits account for the April, July, October and December committee cycles.*

2. *Direct the Department of Human Resources to immediately report any substantive developments that could potentially affect the adequacy of funding provided for health care benefits in the 2003 Adopted Budget.*



Jerome J. Heer, Director of Audits

cc: Lee Holloway, Chairman, Milwaukee County Board of Supervisors
Finance and Audit Committee Members
Scott Walker, Milwaukee County Executive
Linda Seemeyer, Director of Administrative Services
Charles McDowell, Director of Human Resources
Matthew Janes, Employee Benefits Manager, Department of Human Resources
Rob Henken, Director of County Board Research
Lauri Henning, Chief Committee Clerk, County Board Staff